Commodity Briefs

Jack Harrison

Field Crops

Early Outlook Points to Smaller Cotton Crop

For the 1997/98 marketing year (August-July), cotton producers again focused on market signals to determine how much acreage they would devote to cotton. With farm program planting flexibility in its second year under the 1996 Farm Act, the price outlook this season for alternative crops was an important consideration in farmers' planting decisions. As a result, prospects are for reduced U.S. cotton acreage, as early-1997 price expectations for competing crops like corn and soybeans encouraged some cotton producers to switch acreage to an alternative crop.

The March 31 *Prospective Plantings* report indicated that farmers intended to plant nearly 14.5 million acres of cotton, compared with more than 14.6 million in 1996. Although intentions suggest cotton area would be only slightly less than last year's planted area, changes were noticeable on a regional basis. For upland cotton, which accounted for 98 percent of 1996 acreage, both the West and the Delta regions show 6-percent declines in cotton area for 1997. Nearly offsetting these declines, however, were higher expected plantings in the Southeast and the Southwest. Extra long staple (ELS) acreage was also expected to be lower in 1997. A revised estimate for both upland and ELS cotton area is provided in USDA's *Acreage* report, released June 30.

Despite cool, wet weather which delayed cotton plantings in many areas across the Cotton Belt this spring, U.S. plantings were essentially complete by the end of June, in line with the 5-year average. Meanwhile, the condition of the overall crop is slightly better this year than in 1996. As of the end of June, 56 percent of the 1997 area was rated "good" or "excellent," compared with 59 percent a year ago. At the same time, only 13 percent was "poor" or "very poor" so far this year, compared with 17 percent in 1996. However, the very cool spring in the Southeast and Delta regions is causing concern about plant development and potential yield problems.

Although a portion of the 1997 U.S. cotton crop remains to be planted and most has just started to develop, USDA's current production projection is for a slightly smaller crop than in 1996. In estimating projected harvested area, 1992-96 average acreage abandonment by state is considered as well as the *Prospective Plantings* report, and projected yield is based on 1967-96 state trends, weighted by area. With 1997/98 harvested acreage estimated at about 13.3 million acres, and a national average yield of 670 pounds, U.S. cotton production in 1997 would reach 18.5 million 480-pound bales. Final 1996 production was more than 18.9 million bales. The first survey-based production projection for 1997 will be released by USDA on August 12.

U.S. Field Crops—Market Outlook

	Area								
	Planted	Harvested	Yield	Output	Total supply	Domestic use	Exports	Ending stocks	Farm price
	Mil acres		*Bu/acre*	*Mil. bu*					*$/bu*
Wheat									
1996/97	75.6	62.9	36.3	2,282	2,748	1,298	985	465	4.35
1997/98	69.2	61.0	37.8	2,304	2,854	1,250	1,025	579	3.45-4.05
Corn									
1996/97	79.5	73.1	127.1	9,293	9,729	6,995	1,825	909	2.70-2.75
1997/98	81.4	75.1	131.0	9,840	10,759	7,360	2,050	1,349	2.25-2.65
Sorghum									
1996/97	13.2	11.9	67.5	803	821	550	215	56	2.30-2.35
1997/98	10.9	9.8	67.6	665	721	424	200	97	2.00-2.40
Barley									
1996/97	7.2	6.8	58.5	397	531	407	35	89	2.75
1997/98	7.0	6.6	59.7	395	524	417	35	72	2.10-2.50
Oats									
1996/97	4.7	2.7	57.8	155	322	245	3	74	1.95
1997/98	5.3	3.2	58.0	187	361	280	3	78	1.40-1.80
Soybeans									
1996/97	64.2	63.4	37.6	2,382	2,586	1,561	895	130	7.35
1997/98	68.8	67.5	38.5	2,600	2,735	1,585	910	240	5.60-7.00
			Lbs./acre	*Mil. cwt(rough equiv.)*					*$/cwt*
Rice									
1996/97	2.82	2.80	6,121	171.3	207.4	106.2	77.0	24.2	9.85
1997/98	2.88	2.82	5,762	162.5	199.7	107.1	71.0	21.6	9.75-10.75
			Lbs./acre	*Mil. bales*					*c/lb.*
Cotton									
1996/97	14.6	12.9	707	18.9	22.0	10.9	7.1	4.0	69.4
1997/98	14.5	13.3	670	18.5	22.5	11.0	7.3	4.2	*

Based on June 12, 1997 *World Agricultural Supply and Demand Estimates.*
*USDA is prohibited from publishing cotton price projections.
See table 17 for complete definition of terms and data for prior years.

Economic Research Service, USDA

Meanwhile, cotton stocks are projected at about 4 million bales by the start of the 1997/98 marketing year (August 1), the most plentiful in 4 years. Imports of raw cotton into the U.S. during the 1997/98 season are expected to be relatively small, particularly in comparison to 1995/96 and 1996/97 when more than 400,000 bales were imported each year.

The large imports in those years were attributable to extremely low U.S. stocks and to increased quotas that allowed more cotton to enter the U.S. Based on current USDA projections, total U.S. cotton supplies in the 1997/98 season are expected to be the highest since 1994/95, reaching nearly 22.5 million bales.

Total demand for U.S. cotton is also expected to rise in 1997/98, with both domestic mill use and exports projected to expand. Domestic mill use is anticipated to increase slightly to 11 million bales from 10.9 million, as continued competition from manmade fibers, particularly polyester, will likely prevent cotton consumption from expanding at the rates experienced during the first half of the 1990's.

In contrast, U.S. cotton exports are expected to rise 3 percent to 7.3 million bales, accounting for an above-average share of world cotton trade of nearly 27 percent. U.S. stocks have risen faster in the 1996/97 season than foreign supplies, and U.S. cotton supplies will be readily available for export early in the 1997/98 season. In contrast, during the first 2 months of 1996/97, stocks and exports were extremely low. An expected decline in foreign supplies in 1997/98 will provide the U.S. with additional export opportunities.

Yet because demand for U.S. cotton is not expected to exceed production, stocks will likely build further in 1997/98. U.S. cotton stocks in 1997/98 would increase 5 percent, with ending stocks on July 31, 1998 projected at nearly 4.2 million bales, a stocks-to-use ratio of nearly 23 percent.

Preseason supply-and-demand projections are based on current conditions and indications, and with the U.S. cotton harvest still several months away, the crop remains vulnerable to weather and insects.

Cotton Planting Area Shifts Regional Distribution

	1996	1997[1]	1997/96
	1,000 acres		*Percent change*
Upland cotton			
Southeast[2]	3,067	3,150	3
Delta[3]	3,940	3,700	-6
Southwest[4]	5,995	6,093	2
West[5]	1,374	1,297	-6
Total upland	14,376	14,240	-1
Extra long staple	258	245	-5
All cotton	14,634	14,485	-1

[1]Estimated, based on March 31 *Prospective Plantings* report. [2]Alabama, Florida, Georgia, North Carolina, South Carolina, and Virginia. [3]Arkansas, Louisiana, Mississippi, Missouri, and Tennessee. [4]Kansas, Oklahoma, and Texas. [5]Arizona, California, and New Mexico.

Economic Research Service, USDA

As crop conditions unfold and worldwide demand for cotton consumption becomes clearer, the 1997/98 U.S. and world cotton supply-and-demand picture will be in sharper focus.

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Field Crops

Cotton Marketing Loan Program Shifts Away from Imports

On May 8, 1997, USDA announced suspension of special import quotas under Step 3 of the U.S. marketing loan program for upland cotton for the first time in over a year, closing the chapter on an unusual period for U.S. and world cotton markets. Assisted by 80 consecutive weeks of Step 3 quotas, U.S. cotton imports reached amounts unmatched in more than 70 years. During March-December 1996, spanning the 1995/96 and 1996/97 marketing years, imports totaled more than 700,000 bales, compared with 1,000 to 20,000 bales per year during the preceding decade.

Step 3 alone was not sufficient to encourage significant import purchases—which remained far below the millions of bales permitted under the quotas. Rather, import purchases were activated as the U.S. cotton price briefly achieved an abnormally large premium of 7.5-15 cents per pound over the world price. However, long after the possibility of significant imports had faded with shrinkage of the price premium, Step 3 quotas continued to open, precluding the operation of other portions of the cotton marketing loan program.

The marketing loan program for cotton has had a three-step procedure since 1990 to keep U.S. cotton competitive in domestic and foreign markets. Step 1 allows USDA to reduce effective commodity loan repayment rates below the adjusted world cotton price during periods of low prices. This step has seldom been implemented.

Step 2 requires USDA to make payments to exporters and domestic users of cotton if the least expensive U.S. cotton available in Northern Europe exceeds the price of the five least expensive cotton quotes on the world market by more than 1.25 cents/lb. for 4 consecutive weeks. Regardless of the relationship between U.S. and world prices, no Step 2 payments are authorized when the adjusted world price of cotton (excluding shipping costs from the U.S.) exceeds the basic U.S. loan rate by more than 30 percent. However, a critical and more constraining program feature is that no Step 2 payments can occur when conditions also permit opening Step 3 quotas.

Step 3 increases cotton import quotas when U.S. and world prices are high, by effectively raising quotas for imports at low tariff rates. Tariffs for in-quota cotton

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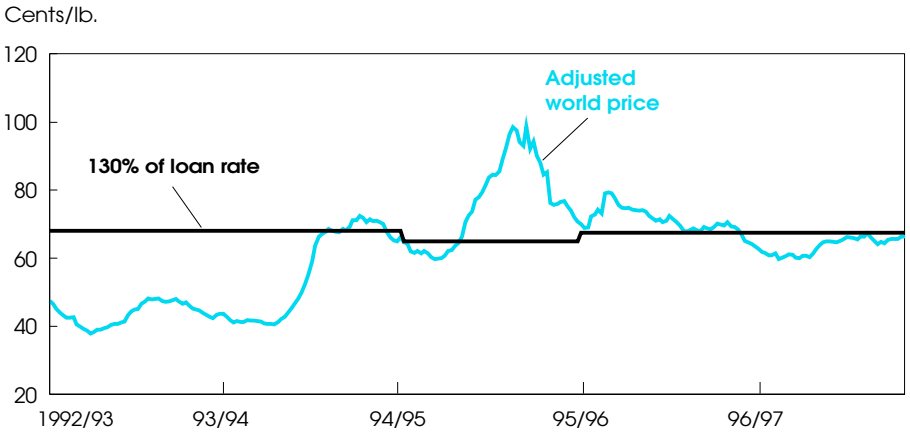
range from 1.5 cents/kg to 4.4 cents/kg, versus 15.4-36.9 cents/kg for imports outside of quota. Whenever the U.S. price exceeds the world price by more than 1.25 cents/lb., plus the value of any Step 2 payments, for 10 consecutive weeks, USDA issues a special import quota under Step 3 equal to 1 week's cotton consumption by U.S. mills. These conditions held for 80 consecutive weeks, ending in May 1997.

Imports help lower cotton prices and assure the U.S. textile industry access to competitively priced cotton when U.S. supplies are unusually tight. Imports minimize price spikes and permit some U.S. mills to switch to foreign cotton, releasing U.S. cotton for purchases by foreign mills that have come to depend on U.S. cotton's fiber characteristics.

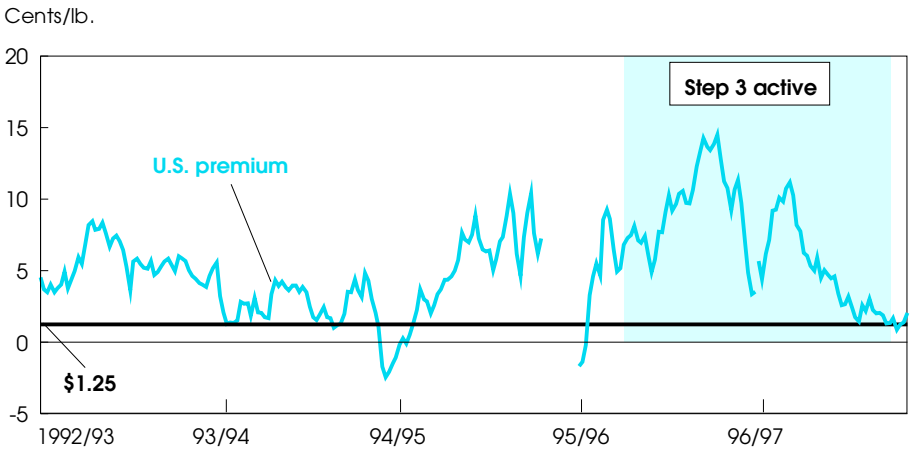
The use of Step 3 during 1995-97 was in marked contrast to 1991-94, which saw Step 2 of the marketing loan program implemented during 131 weeks, making U.S. cotton more competitive by authorizing payments to exporters and domestic consumers rather than raising imports.

Adjusted World Price for Cotton Rose Significantly in Mid-1990's, Preventing Step 2 Payments



August-July marketing year. Weekly average price quotes.

U.S. Cotton Premium Over World Price Peaked in Spring 1996



August-July marketing year. Weekly average price quotes; gaps indicate no quote available.

Economic Research Service, USDA

Large Step 2 payments were often made during the early 1990's as low-priced Central Asian cotton poured into world markets when the Russian textile industry collapsed and production and exports soared in Pakistan and China. Within a few years, disease and pest problems in Pakistan and China led to record world prices, halting the use of Step 2. While prices were high, foreign importers drew on U.S. stocks, facilitated by U.S. infrastructure which permits the rapid movement of quality cotton, and U.S. stocks fell from 4.7 million bales to 2.6 million.

By 1996, foreign production had rebounded, and the world price of cotton no longer exceeded the loan rate by more than 30 percent. However, the combination of tight U.S. supplies and ample foreign supplies kept the U.S. price higher than the world price by more than 1.25 cents/lb., continuing Step 3 quotas and ensuring that no Step 2 payments could be authorized.

During much of 1997, high U.S. prices, which resulted in Step 2 payments during the early 1990's, have maintained unused import quotas instead. The quality, reliability, and production costs of U.S. cotton ensure that a premium of 1.25 cent/lb. to its cheapest competitors is common, and the prospect of using continued import quotas rather than payments to exporters to attempt to close that gap has dismayed some segments of the U.S. cotton industry.

Following the recent break in the period of high U.S. price premiums that had triggered Step 3 quotas for 80 weeks, Step 2 payments during the 1997/98 marketing year have now become a possibility. This assumes the adjusted world price remains within 30 percent of the base loan rate. It is also possible that Step 3 will be reactivated early next marketing year, since the difference between the U.S. and world price currently exceeds 1.25 cents/lb. for the new crop.

If Step 2 is implemented, recent regulatory changes aimed at reducing the "bunching" of export sales during periods of peak Step 2 payments will reduce the certainty of Step 2 payment levels for exporters. This will probably increase the proportion of Step 2 payments going to

World Commodity Market Outlook

	Year	Production[1]	Exports[2]	Consumption[1,3]	Carryover[1]
			Million tons		
Wheat	1996/97	583.0	113.2	577.6	110.1
1997/98	578.8	111.5	573.5	115.5	
Corn	1996/97	589.4	68.0	570.8	84.6
	1997/98	598.7	71.7	591.5	91.8
Barley	1996/97	153.7	15.2	149.6	23.1
	1997/98	147.9	15.5	150.9	20.1
Rice	1996/97	381.2	18.5	376.7	54.9
	1997/98	377.3	18.5	377.5	54.7
Oilseeds[4]	1996/97	258.0	45.8	216.8	17.4
	1997/98	273.0	NA	NA	NA
Soybeans[4]	1996/97	132.2	35.4	115.0	13.8
	1997/98	NA	NA	NA	NA
Soybean meal[4]	1996/97	91.0	33.5	91.2	3.8
	1997/98	NA	NA	NA	NA
Soybean oil[4]	1996/97	20.4	5.8	20.4	2.3
	1997/98	NA	NA	NA	NA
			Million bales		
Cotton	1996/97	88.3	26.7	86.7	36.3
	1997/98	87.5	27.2	88.5	35.3

NA = Not available.

1. Aggregate of local marketing years. 2. Wheat, July-June; coarse grains, October-September; cotton, August-July. Rice trade is for the second calendar year. All trade includes trade among countries of the former Soviet Union. All grain trade excludes intra-EU trade; oilseed and cotton trade include intra-EU trade. 3. Crush only for soybeans and oilseeds. 4. Brazil and Argentina adjusted to October-September.

Economic Research Service, USDA

domestic mills and could change the program's impact on U.S. and world prices. Furthermore, the U.S. cotton industry is proposing additional changes to these provisions, to address concerns raised by recent events.

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Livestock, Dairy & Poultry

U.S. Meat Trade Picture Mixed

U.S. *beef exports* were weak during January-April as sales to Japan and Canada fell. Despite strong increases in sales to Mexico and Korea, total exports remained below the same period in 1996. However, if Japanese consumers regain confidence in the safety of beef, increasing demand for beef in the second half of the year, total U.S. exports could rise over second-half 1996. Weakness in the first half will limit exports to 1.9 billion pounds for the year, about 2 percent above 1996. A return to more stable consumption patterns by consumers in Japan and Mexico could significantly boost U.S. exports in 1998, although high U.S. cattle prices might temper U.S. sales.

Large inventories and high production in Canada have limited opportunities to market U.S. beef there. Canada's beef cycle peaked in 1996, and as Canada enters its liquidation phase, imports from the U.S. likely will be limited by large domestic supplies.

Mexico and Korea have provided important alternate export outlets amid the gloom of declining sales to two major U.S. beef export markets. In Mexico, continued economic growth and moderate U.S. beef prices in the first quarter stimulated imports. Mexican cattle herds remain at low levels following 3 years of drought (1994-96), and opportunities for domestic production to supply growing needs remain limited in the short term.

The late-April request by the Mexican Association of Cattle Feeders for an anti-dumping investigation against U.S. beef will add uncertainty in the Mexican market over the next several years. The Mexican Secretariat of Commerce and Industry (SECOFI) will issue a determination on whether to proceed with the investigation. Under Mexican law, if SECOFI proceeds, it will first determine the degree to which dumping has occurred and can, if it chooses, apply a provisional duty while determining if actual injury occurred. Based on previous anti-dumping investigations, however, it could be a year between the beginning of the investigation and the announcement of any duties.

U.S. exports to Korea increased as demand recovered from dramatically reduced levels in 1996 that had resulted from economic sluggishness and food safety concerns. Mandated increases in the Korean beef import quota and the Simultaneous-Buy-Share (SBS) portion of the quota—the part allocated to non-governmental entities—should help boost market opportunities provided by the increased consumption expected in 1997.

Two factors constrain trade with Korea, however. Any negative news concerning food safety could again reduce consumer demand, and the falling value of Korea's currency in relation to the U.S. dollar will make U.S. beef more expensive compared with domestic product. The won fell 5 percent against the dollar between

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U.S. Livestock and Poultry Products—Market Outlook

		Beginning stocks	Production	Imports	Total supply	Exports	Ending stocks	Consumption Total	Consumption Per capita	Primary market price
		Million lbs.							*Lbs.*	*$/cwt*
Beef	1997	377	25,293	2,341	28,011	1,915	375	25,721	66.7	66-69
	1998	375	24,906	2,400	27,681	2,140	350	25,191	64.7	70-76
Pork	1997	366	17,126	593	18,085	1,250	400	16,435	47.6	55-57
	1998	400	18,357	605	19,362	1,465	380	17,517	50.3	51-55
										c/lb.
Broilers*	1997	641	27,210	4	27,855	4,840	700	22,315	72.4	59-61
	1998	700	28,953	3	29,656	5,025	750	23,881	76.7	57-62
Turkeys	1997	328	5,370	1	5,699	502	350	4,847	18.1	66-69
	1998	350	5,656	1	6,007	505	325	5,176	19.1	62-67
		Million doz.							*No.*	*c/doz.*
Eggs**	1997	8.5	6,516.8	4.9	6,530.2	264.7	12.0	5,353.2	239.7	79-82
	1998	12.0	6,705.0	4.0	6,721.0	266.0	10.0	5,505.0	244.3	72-78

Based on June 12, 1997 *World Agricultural Supply and Demand Estimates.*
*Cold storage stocks previously classified as "other chicken" are now included with broiler stocks. **Total consumption does not include eggs used for hatching.
See tables 10 and 11 for complete definition of terms.

Economic Research Service, USDA

January and April and has averaged 9 percent below its 1996 level.

U.S. *beef imports*, although well below levels of the early 1990's, were somewhat higher in the first 3 months of 1997 than in first-quarter 1996, as U.S. cow slaughter declined with the beginning of a rebuilding of the U.S. cattle herd. Imports for 1997 are likely to reach 2.3 billion pounds, about 13 percent above 1996 when U.S. cow slaughter was large.

Large supplies of Canadian beef and a weakening of the Canadian dollar encouraged a dramatic increase in beef imports from Canada. In the last half of 1996, Canada displaced Australia as the largest source of imported beef in the U.S. and is expected to continue to outpace Australia through 1997. As U.S. domestic cow beef prices climb during the remaining two quarters of this year, however, increasing quantities of beef will likely be imported from Australia and New Zealand.

Imports for 1998, which will continue increasing as U.S. cow slaughter declines, could reach 2.4 billion pounds. The rebuilding of the U.S. cattle herd will encourage producers to retain cows and will likely push cow beef prices higher through the year. Large supplies of beef in Canada, as its cycle turns, will encourage Canadian shipments, and if demand in Japan remains weak through next year, the U.S. will provide a very attractive market for Australian and New Zealand beef.

Pork exports are projected to increase in 1998, possibly exceeding 1.5 billion pounds, 17 percent more than the current 1997 forecast of 1.25 billion pounds. Export forecasts are based largely on assumptions of growing foreign incomes and populations, stable-to-declining foreign production, and continued WTO-mandated import market liberalization. Increased U.S. pork supplies and the absence of Taiwan in the world market as a result of its recent foot-and-mouth outbreak, also support expectations for higher 1998 exports.

U.S. *pork imports* could rise slightly in 1998, largely on the basis of ample availability of rib cuts from Denmark. Despite a sharp increase in production in 1998, the U.S. is expected to remain a relatively attractive market for pork because of continued high relative prices.

All of the main categories of U.S. *poultry exports* (broilers, other chicken, turkeys, eggs, and egg products) are expected to increase in 1997 and again in 1998, although the rate of expansion is likely to be lower than in the last several years. Broiler exports in 1997 are forecast to reach 4.8 billion pounds, an increase of nearly 10 percent. Most of the growth is expected to come from increased shipments to Russia and other countries of the former Soviet Union. Mexico is also expected to remain a growing market for broiler products. In 1998, broiler exports are forecast at 5 billion pounds, as shipments to Russia, the largest U.S. market, begin to level off.

Turkey exports in 1997 are expected to be around 502 million pounds, about

Omission

Sophia Huang was a major contributor to the article on Taiwan's foot-and-mouth outbreak that appeared in the June issue of *Agricultural Outlook*. Acknowledgment of her contribution was mistakenly omitted from the article. Sophia Huang is the principal contact at the Economic Research Service for information regarding Taiwan, and may be reached at (202) 219-0679 or by e-mail at *sshuang@econ.ag.gov.*

15 percent above 1996. Expanding shipments of turkey products to Mexico and Canada and a rapidly growing market in Hong Kong are expected to offset anticipated lower exports to Russia and Korea. Export growth is forecast to slow in 1998, with fractional expansion to 505 million pounds, as sales to Mexico grow less rapidly.

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Specialty Crops

Sugar Beet Crop To Outpace 96/97 Despite Flooding

The Red River Valley of Minnesota and North Dakota is the largest sugarbeet producing area in the U.S., and the disastrous early-spring 1997 floods at one time threatened the region's not-yet-planted 1997/98 sugar beet crop. Two sugar beet factories had to close for a few weeks as well, delaying the processing of remaining piles of beets until the water receded.

By the end of April, however, the southern end of the Red River Valley was drying out, and by mid-May, drying had progressed far enough downstream (to the north) that virtually all cropland was ready for planting. By late May, while some water problems remained, statewide-average sugarbeet plantings in Minnesota and North Dakota had moved ahead of last year's rate as well as the 5-year average.

Total U.S. processed sugar production for 1997/98 (October-September) is projected at 7.5 million short tons, raw value, up over 3 percent from 1996/97. Beet sugar production is projected at 4.3 million tons, up 6 percent from this year, while cane sugar production is projected at 3.2 million tons, unchanged from 1996/97.

Planting intentions released in March indicated 1997/98 U.S. sugar beet planted acreage would be 1.45 million acres, up over 6 percent from the current year. Acreage increases were indicated all across the country, with the biggest increase in Michigan. Last year many Michigan growers had turned to alternative crops such as corn and beans when prices were high; in 1997, sugarbeet prices look relatively strong, and both Michigan processing companies have agreed to provide a higher share of returns to farmers. In 1996/97, Ontario growers for the first time produced a small amount of sugar beets for processing in Michigan, and they plan to plant more than 3,000 acres in 1997/98, adding slightly to expected U.S. processed sugar production.

Over the last few decades there has been a gradual decline in the share of national sugar beet acreage located in the irrigated, western growing areas. Most western beet acreage is in warmer climates (e.g., California), where the lack of cold winters increases plant pests and shortens the beet processing season. Sugar beets deteriorate rapidly after harvesting unless they can be frozen, restricting the processing season except in areas where early freezing temperatures allow for inexpensive storage at processing plants.

The share of national acreage in the nonirrigated, eastern growing region—Minnesota, North Dakota, Michigan, and Ohio—was less than 25 percent in the early 1970's, reached 30 percent in 1975 and 50 percent by 1986, and is now approaching 60 percent. A consequence of this shift will be greater variability in U.S. beet sugar production, since nonirrigated agriculture is more sensitive to weather variability.

Among cane sugar producers, Florida is forecast to produce 1.75 million tons of sugar, 55 percent of U.S. cane sugar output. After expanding in the 1980's, Florida's sugar acreage and production has been fairly steady for the past 7 years, and acreage is projected to remain about the same next year.

So far, Everglades restoration efforts have had little impact on sugarcane acreage. The South Florida Water Management District is currently purchasing land in the East Coast Water Preserve Area and the Everglades Agricultural Area as part of the restoration efforts. Some of the funding for land acquisition is provided by the 1996 Farm Act, some by state government, and some from farmers in the Everglades Agricultural Area. Under provisions of Florida's 1994 Everglades Forever Act, these producers have been paying about $25 per acre per year.

Louisiana sugar production in 1997/98 is forecast at 975,000 tons, down 7 percent from the near-record 1996/97 crop. While Louisiana cane acreage will be up in 1997, yields are expected to drop to normal from last year's exceptional levels. A new growing area of about 6,000 acres in western Louisiana will be harvested this fall for seed cane to expand plantings; the new plantings will be harvested in fall of 1998. This new area may expand to 30,000 or more acres within a few years. Nineteen mills will be processing in Louisiana this fall, after which one mill is scheduled to close.

Sugar production in Hawaii has declined from over 1 million tons in the mid-1980's to a projected 340,000 tons in 1997/98. Three mills closed in 1996, and sugar production has now ceased entirely on the islands of Hawaii and Oahu. Three mills remain on Maui and three on Kauai. Prospects are for a return to better yields in 1997, after soil problems caused a poor showing in 1996. There are some indications that the processing industry in Hawaii may shrink further, although most of the current acreage will likely remain in sugarcane for many years.

Texas, after a poor crop in 1996/97, due in part to a 4-year drought in the Rio Grande watershed, is projected to produce 110,000 tons of cane sugar in 1997/98. Rains have helped replenish the reservoirs that provide water for irrigation, although water supplies are still not likely to reach optimal levels. Puerto Rico is projected to reduce 25,000 tons of cane sugar, unchanged from 1996/97.

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U.S. sugar deliveries for 1997/98 are projected to rise 1 percent to 9.75 million tons, raw value, about in line with the trend over the last decade. The estimate for 1996/97 deliveries has been trimmed to 9.65 million tons, down from the January estimate of 9.9 million tons. Continued strong prices for refined sugar, increased imports of products containing sugar, and heightened competition from corn-based sweeteners are the main reasons for slower growth.

The U.S. *raw* sugar price averaged 21.8 cents a pound for the first 4 months of 1997, down from 22.21 cents for October-December 1996 and 22.63 cents for October-December 1995. Beginning in October 1995, when the prospect of another poor beet crop became apparent, the *wholesale* refined beet sugar price rose from about 25 cents a pound to 29 cents, where it remained for most of 1996 before falling to 28 cents a pound in late spring 1997. Cane refiners' margin (the difference between raw and refined price), low in 1995, was quite high in 1996 and early 1997.

During the last 2 years, refiners have periodically operated close to capacity. There are signs, however, that refined sugar prices are softening, as the market anticipates the possibility of a 1997/98 beet crop higher than the previous 2 years.

The price of high-fructose corn syrup (HFCS) is reported at record lows. U.S. HFCS capacity increased more than 20 percent over the last 2 years, and with U.S. demand growing only about 5 percent a year, the industry has been operating well below capacity. HFCS-55 (55 percent fructose, slightly sweeter than liquid sugar and used primarily in soft drinks) is being contracted for the coming year at prices below 13 cents a pound (dry basis, Midwest delivery). HFCS-42 (42 percent fructose, slightly less sweet than sugar and used most often in confections and other processed foods) is priced below 11 cents a pound. With refined sugar priced at 28 cents a pound, plus shipping costs (HFCS prices include delivery), the temptation to use HFCS is very strong when the switch is technically feasible.

At one time it appeared that HFCS exports to Mexico might absorb a great deal of the increased capacity, but export prospects are now clouded by an anti-dumping investigation launched by the Mexican government. A preliminary determination on the merits of the case should be made by the Mexican government in early July, followed by a hearing by a Mexican government panel in late August, which will likely make a final determination in October.

In the meantime, U.S. exports of HFCS to Mexico are rising. HFCS-55 exports to Mexico in January-March 1997 were 25,000 tons, dry basis, compared with 12,000 tons in the same period last year. Exports for all of 1996 were 97,000 tons, compared with 29,000 tons in 1995.
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July Releases--USDA's Agricultural Statistics Board

The following reports are issued electronically at 3 p.m. (ET) unless another time is indicated.

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Dairy Products
Poultry Slaughter
3 *Egg Products*
Noncitrus Fruits & Nuts, Annual
7 *Crop Progress (after 4 pm)*
9 *Broiler Hatchery*
10 *Vegetables*
11 *Crop Production (8:30 am)*
14 *Crop Progress (after 4 pm)*
15 *Milk Production*
Turkey Hatchery
16 *Broiler Hatchery*
17 *Agricultural Chemical Usage, Vegetables*
Farm Production Expenditures
18 *Cattle*
Cattle on Feed
Cold Storage
Sheep
21 *Crop Progress (after 4 pm)*
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23 *Agricultural Prices, Annual*
Broiler Hatchery
24 *Catfish Processing*
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